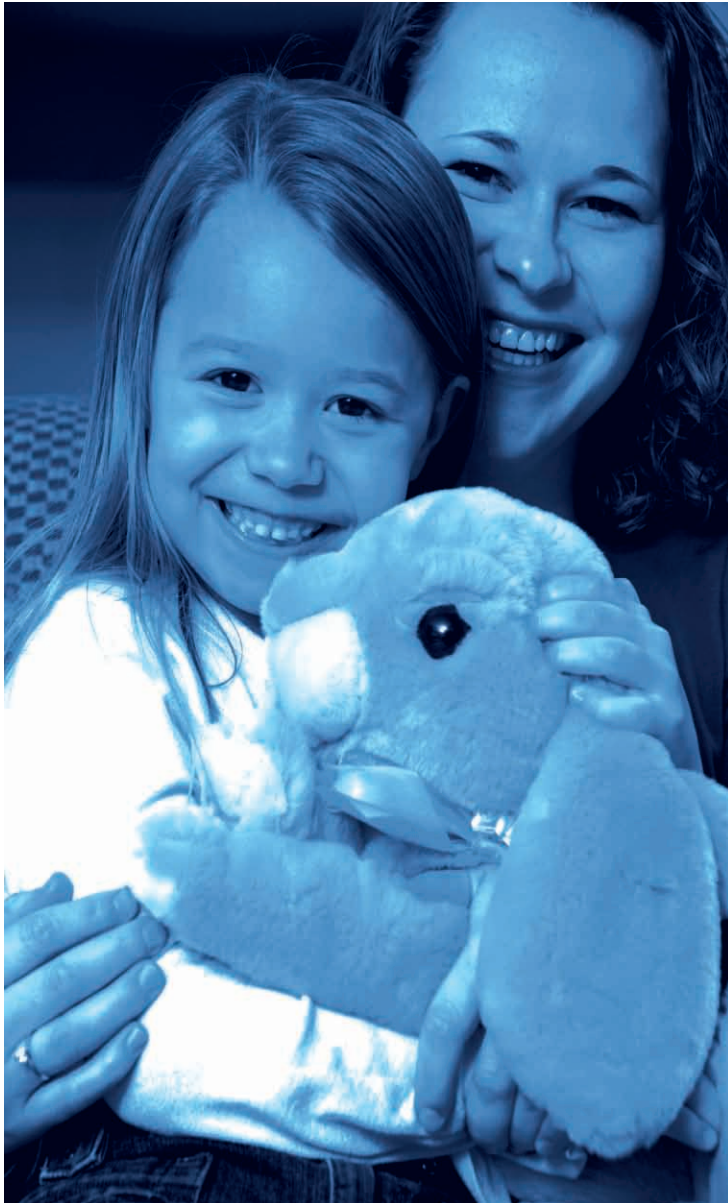


**T**ennCare is a government-operated health insurance program originally designed for low income individuals and others whose health or employment status made it difficult for them to access private insurance. The “core” population consists of individuals eligible for Medicaid. In addition to these Medicaid eligibles, TennCare has served another group of people who are not eligible for Medicaid, but who are uninsured or uninsurable (also referred to as medically eligible). This group is frequently referred to as the waiver, expansion, TennCare Standard or demonstration population. The term “demonstration population” derives from the fact that TennCare is operated as a demonstration project under an 1115(a) waiver from the federal government. The TennCare project originally sought to demonstrate that by managing the care of enrollees, the state could experience savings that would facilitate serving a larger portion of the population.

During FY 2005, these figures attest to the fact that TennCare serves a broader population than most other medicaid programs:

- TennCare covers approximately 23 percent of the state’s population
- Enrollment, on December 31, 2004, was 1,357,700 with 1,113,000 of these persons being Medicaid eligible and 244,700 enrolled in the expansion population (according to U.S. Census data in 2004, Tennessee’s total population was 5,748,379)
- Coverage is especially pronounced among women of childbearing age and infants and children  
*In fact, one of every two babies born in Tennessee is covered by TennCare.*









**TennCare** was created on January 1, 1994. In the beginning, all services except for long-term care and some care delivered by other state agencies were provided by Managed Care Organizations (MCOs). Every TennCare enrollee was enrolled in an MCO, making TennCare one of the largest government-operated managed care programs in the country. In 1996, behavioral health services were “carved out” from MCO responsibility and Behavioral Health Organizations (BHOs) were brought into the managed care system to deliver mental health and substance abuse treatment services. In 2002, dental services were carved out and offered by a Dental Benefits Manager (DBM).

Pharmacy services began being carved out of the other managed care programs in 1998 and offered directly by the state. In 2000, drugs for dual eligibles (individuals eligible for both TennCare and Medicare) were carved out, and in 2003, all remaining drugs were carved out. TennCare contracts with a Pharmacy Benefits Manager (PBM) to manage the drug program.

As of the 2005 fiscal year, each TennCare enrollee interacts with four Managed Care Contractors (MCCs) delivering his or her care (an MCO, a BHO, the DBM and the PBM). Long-term care services and some services for children in state custody continue to be provided outside the managed care structure.

TennCare MCOs originally operated under a fully capitated risk arrangement with the state to provide medical services to TennCare enrollees. In the late 90s and early 2000, the TennCare program experienced several setbacks with some MCOs that failed and were eventually removed from the program. In an effort to stabilize the program, by July 1, 2002, all TennCare MCOs were operating under a Stabilization Plan for which time the MCOs were paid an administrative fee and were not at risk for the cost of medical service. Such was the case through the end of last fiscal year when, on July 1, 2005, the MCO network was returned to risk.

TennCare is funded through a federal match program. The match rate during Federal Fiscal Year 2005 for most services was 64.81 percent, meaning that for every \$1.00 spent in the TennCare program, the federal government provides \$0.6481 in reimbursement. Certain other expenditures may be funded at a higher or lower match rate depending on federal regulation.

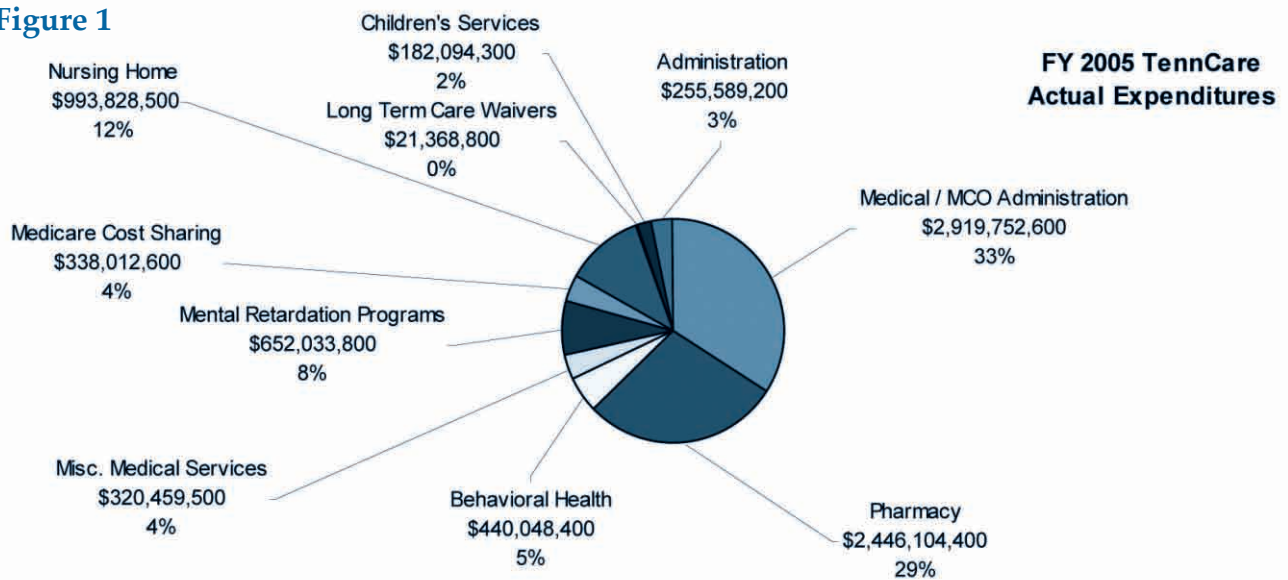
TennCare’s total expenditure in FY 2005 was over \$8.5 billion. **In fact, in 2005, Tennessee’s Medicaid expenditures represented 26.34 percent of Tennessee’s Department of Revenue’s tax collections.** A complete budget breakout follows in Table 1 and is graphically depicted in Figure 1 (next page). ■

**Table 1**  
**Total Budget with Funding Breakout**

<b>Category</b>	<b>FY 2005 Budget</b>	<b>FY 2005 Spending</b>
Medical / MCO Administration	\$2,725,131,900	\$2,919,752,600
Pharmacy	\$2,113,972,500	\$2,446,104,400
Behavioral Health	\$454,539,600	\$440,048,400
Misc. Medical Services	\$346,673,900	\$320,459,500
Mental Retardation Programs	\$664,664,400	\$652,033,800
Medicare Cost Sharing	\$287,511,200	\$338,012,600
Nursing Home	\$993,954,300	\$993,828,500
Long Term Care Waivers	\$47,676,000	\$21,368,800
Children's Services	\$180,874,000	\$182,094,300
Administration	\$230,073,700	\$255,589,200
<b>Total Expenditure</b>	<b>\$8,045,071,500</b>	<b>\$8,569,292,100</b>
State Appropriations	\$2,540,007,100	\$2,538,746,900
Federal	\$4,836,033,100	\$4,992,233,500
Federal CPE	\$207,224,300	\$203,619,900
Drug Rebates	\$423,304,500	\$702,230,500
Premiums	\$38,368,500	\$40,029,100
Other funding/Carryforward	\$134,000	\$92,432,200



**Figure 1**



As depicted in the following table (Table 2), TennCare expenditures have a compound annual growth rate of 12.1 percent over the past five years.

TennCare spent almost \$500 million more than its approved budget in FY 2005. This fact confronted state government when planning for the FY 2006 budget, and was one of the driving forces behind the need for immediate reform of the TennCare program.

**Table 2**

Fiscal Yr	Actual Expenditures	Growth
2000-2001	\$5,430,806,600	
2001-2002	\$6,105,650,500	12.43%
2002-2003	\$6,864,485,100	12.43%
2003-2004	\$7,631,267,100	11.17%
2004-2005	\$8,569,292,100	12.29%